

Company law update (Lecture A880/ A881 – 9.00/ 10.58 minutes)

In March 2024, the previous government announced plans to implement various regulatory changes that are designed to ease the burdens placed on businesses in respect of non-financial reporting. One of those changes, which is of particular interest to accountants, is an increase in the thresholds that determine the size of a company or group.

The current company size thresholds have been in place since 2015, so it has been a while since they were last reviewed. Static thresholds mean that more companies are drawn into reporting requirements that may not be appropriate – especially given the effects of inflation since 2015 (and more recently, since 2020). In addition, the thresholds currently set out in company law are derived from EU legislation made in 2013, and are as follows:

Company and group size thresholds (net)				
<i>2 out of 3 of:</i>	Micro	Small	Medium	Large
Annual turnover (£)	≤632k	≤10.2m	≤36m	>36m
Balance sheet total (£)	≤316k	≤5.1m	≤18m	>18m
Average number of employees	≤10	≤50	≤250	>250

Group size thresholds (gross)				
<i>2 out of 3 of:</i>		Small	Medium	Large
Annual turnover (£)	Not applicable	≤12.2m	≤43.2m	>43.2m
Balance sheet total (£)		≤6.1m	≤21.6m	>21.6m
Average number of employees		≤50	≤250	>250

Update to company size thresholds

The previous government indicated that the new size thresholds would have a planned effective date of financial years commencing on or after 1 October 2024. Since then, there has, of course, been a change in government. When Labour came into power, it was notable that there was no mention of these reforms in the King's Speech in July 2024, indicating that it was a case of 'wait and see' if anything was to re-emerge where these plans were concerned.

On 14 October 2024, the Secretary of State for Business and Trade confirmed in a ministerial statement that the Labour government will take forward the previous government's plans to increase the company size thresholds. Legislation is expected to be laid before Parliament before the end of this year and is expected to come into force on 6 April 2025.

The company size thresholds are expected to be increased by 50% as follows:

Company and group size thresholds (net)				
<i>2 out of 3 of:</i>	Micro	Small	Medium	Large
Annual turnover (£)	≤1m	≤15m	≤54m	>54m
Balance sheet total (£)	≤500k	≤7.5m	≤27m	>27m
Average number of employees	≤10	≤50	≤250	>250
Group size thresholds (gross)				
<i>2 out of 3 of:</i>		Small	Medium	Large
Annual turnover (£)	Not applicable	≤18m	≤64m	>64m
Balance sheet total (£)		≤9m	≤32m	>32m
Average number of employees		≤50	≤250	>250

Many companies currently classed as medium-sized will be able to move down to the small category. This will potentially enable them to apply a less rigorous financial reporting regime (e.g. FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, including Section 1A *Small Entities*, if they wish). The government estimates that this will save companies more than £240m per year. It is expected that most newly small companies will choose to adopt a less rigorous reporting regime, provided there is no objection to doing this from stakeholders, such as banks or shareholders.

The other potential saving will come in the form of audit exemption as companies that are reclassified as small may be able to claim audit exemption. The audit exemption thresholds are directly linked to the small companies' thresholds, hence any increase in the small company thresholds means that the audit exemption thresholds automatically increase at the same time.

Not all companies that are reclassified as small will be able to claim audit exemption, but most will. It should be noted that the current government also plan to make various technical corrections to the audit regulatory framework, which is briefly examined in the audit update section of the course (see section 10).

Changes to the directors' report

The reforms will also make changes to the directors' report in respect of non-financial reporting, aimed at removing several obsolete or overlapping requirements in respect of the directors' report and the directors' remuneration report (for large companies).

Specifically, the proposals set out to:

- Remove the information requirements related to the employment of disabled people
- Remove the information requirements on financial instruments
- Remove the information requirements on branches
- Remove the information requirements on employee engagement
- Remove the information requirements on engagement with suppliers, customers and others
- Remove the information requirements on important events, future developments and research and development

Medium-sized companies

The previous government announced plans to consult on redefining a 'medium-sized business'. This would have involved increasing the employee headcount criterion from 250 (as it currently is) to 500. In addition, the previous government announced that it would consult on providing an exemption from medium-sized companies having to include a Strategic Report in the annual report.

The Labour government announced that it will **not** be taking forward these proposals at the current time on the grounds that feedback suggests a more holistic review of the thresholds and the wider reporting framework is necessary.

Future of corporate reporting

The Secretary of State announced that the Department of Business and Trade would undertake a consultation on the *Future of Corporate Reporting*, aimed at simplifying and modernising non-financial reporting to better meet business and investor needs.

In addition, the proposals concerning medium-sized companies (as discussed above) would also be considered as part of the *Future of Corporate Reporting* consultation, as this is much broader.

The government plans to launch this consultation in 2025.

Economic Crime and Corporate Transparency Act update

On 16 October 2024, Companies House published a 'Transition Plan' for implementation of some of the key provisions of The Economic Crime and Corporate Transparency Act (ECCTA) which are not yet in force.

As previously updated, the ECCTA will be introduced in tranches and will require over 50 Statutory Instruments (SIs) to be issued to implement the various measures contained in the Act. It will also require Companies House' systems and processes to be changed to cater for

the new measures and Companies House have estimated that it will take until 2027 to complete the transition.

Key provisions already in force

Various SIs were passed on 29 February 2024 which made some initial changes effective from **4 March 2024**, including:

- greater powers to query information and request supporting evidence;
- stronger checks on company names;
- new rules for registered office addresses;
- a requirement for all companies to provide a registered email address;
- a requirement for all companies to confirm they are carrying out lawful activities when they incorporate, and to confirm its intended future activities will be lawful on the Confirmation Statement (form CS01);
- the ability to annotate the register when information appears confusing or misleading;
- taking steps to clean up the register, using data matching to identify and remove inaccurate information; and
- sharing data with other government departments and law enforcement agencies.

Further regulations, which came into force on **2 May 2024** provide the Registrar of Companies with the ability to issue a financial penalty to companies and individuals in breach of Companies Act 2006 as an alternative to pursuing a criminal prosecution. Any aggravating or mitigating factors can be taken into consideration.

How the Transition Plan currently looks

This table provides a summary of the key dates, together with details of some of the more notable elements:

Timeline	Reforms
By Autumn 2024	Companies House will start using its powers to issue financial penalties for relevant offences
By Winter 2024 into 2025	Companies House will expedite the striking-off of companies formed on a false basis and begin annotating the register in a wider range of circumstances
By Spring 2025	The process for registration of Authorised Corporate Service Providers will open Individuals will be able to voluntarily verify their identity

	Companies House will begin processing applications from individuals seeking to have residential addresses suppressed from public disclosure in certain circumstances
By Summer 2025	Certain trust information on the Register of Overseas Entities will be available to access on request
By Autumn 2025	Identity verification will become a compulsory part of new incorporations, the appointment of new directors and notifications of new Persons with Significant Control (PSCs) A 12-month transition phase for existing directors and PSCs to verify their identity will begin
By Spring 2026	Identity verification for individuals filing information with Companies House to be compulsory Third-party agents filing on behalf of companies will need to be registered as Authorised Corporate Service Providers
By end of 2026	Transition phase for individuals to become ID verified to end and compliance action will be taken against any non-verified individuals Limited partnerships will be required to submit more information Companies House to facilitate greater cross-checking and data-sharing among agencies

ID verification

ID verification is a common issue that is asked about by accountants. When the measures are fully implemented, it will require directors, all members of LLPs, PSCs and individuals delivering documents to Companies House to verify their identity.

ID verification is expected to be a one-off requirement. Hence, an individual that has several directorships will only need to have their identity verified once.

ID verification is expected to be possible using a number of methods, such as the GOV.UK ID Check application; the One Login web journey; or at Post Office. In addition, Authorised Corporate Service Providers will be able to provide ID verification services if they wish.

By Spring 2025, individuals will be allowed to voluntarily verify their ID and by Autumn 2025, Companies House will aim for ID verification to be compulsory on incorporation and on the appointment of new directors and registration of new PSCs.

It is likely that this will also extend to the incorporation of LLPs and the registration of new members within the LLP (though the Transition Plan is not specific on this issue).

Given there are more than 7 million existing directors and PSCs, a 12-month transition phase is expected to commence between Autumn 2025 and Autumn 2026.

It will require companies to ensure that the directors and PSCs are ID-verified at the time of filing the first Confirmation Statement during that period. It is likely that LLPs will follow the same timetable.

Companies House filings

The ECCTA provides restrictions on who can file information at Companies House. These changes are expected to come into force in Spring 2026 and will mean that a firm delivering a return to Companies House will have to have that return filed on its behalf by an ID-verified individual who is an officer or employee of that firm (or of a corporate officer of that firm), or by an Authorised Corporate Service Provider acting on its behalf. Individuals that are delivering returns on their own behalf will need to be ID-verified. Individuals that are disqualified from being a director will be prevented from filing and will need to use an Authorised Corporate Service Provider instead.

Third-party providers, such as accountants, wanting to become Authorised Corporate Service Providers must be supervised by one of the UK's relevant Anti-Money Laundering Supervisory Bodies (e.g. ICAEW or ACCA) and will need to register their business as an Authorised Corporate Service Provider before they can continue to submit information to Companies House on behalf of clients.

Changes not included in the Transition Plan

The table below outlines other reforms arising from the ECCTA, but which are not included in the Transition Plan:

Minor changes to company administration	The ECCTA makes changes to administrative requirements such as removing the requirement to maintain a register of directors and secretaries. These issues do not have a direct impact on Companies House requirements and so are not referred to in the Transition Plan.
Prohibitions on using corporate directors	The Transition Plan does confirm that the ban on corporate directors will come into force, but it does not specify when. It should be noted that only corporate entities that have legal personality and are UK-based will be eligible to act as a corporate director.
Accounts reform	There are a number of accounting reforms brought in by the Act. The Transition Plan indicates that Companies House will be moving to a software-only filing regime for company accounts in the future. There is no indicative timetable for these changes.
Register of Overseas Entities Regime	Certain provisions of this regime came into effect on 4 March 2024. However, other amendments, such as requirements to disclose property title information, additional information concerning trusts and registrable beneficial owners in a period prior to 31 January 2023,

	have not yet come into effect and are not referred to in the Transition Plan.
Failure to Prevent Fraud offence	This new offence (which is currently only applicable to large companies) is not in the remit of Companies House and so is not mentioned in the Transition Plan.

It is important that accountants keep up to date with developments in this area as there will be a significant number of Statutory Instruments issued over the next couple of years that will implement various measures in the ECCTA. As developments progress in this area, they will be covered in the various quarterly updates as necessary.